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E.O. 12958: DECL: 02/11/2017  
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SUBJECT: AMBASSADOR'S MEETING WITH LABOR MINISTER TOMADA

Classified By: AMBASSADOR E. ANTHONY WAYNE FOR REASONS 1.4 (B) AND (D)

¶1. (C) Summary: On February 6, Minister of Labor Carlos Tomada told Ambassador that Argentina welcomes an exchange of ideas and best practices. The Minister discussed GOA efforts to reform its pension system, provide job training programs, and encourage greater levels of formal employment. He also noted GOA efforts to encourage the Argentine private sector to link corporate social responsibility (CSR) with formal work. The Ambassador suggested that CSR is an area where the U.S. and Argentina can strengthen cooperation. The Minister stressed that Argentina is not in danger of a real energy crisis since the GOA is working to diversify its energy sources and increase investment in the sector. Tomada closed the meeting by asserting that the GOA has learned from its mistakes, and that President Kirchner understands the importance of strong macrofundamentals, since ultimately, "it's the economy, stupid." END SUMMARY.

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Pension Reforms: Freedom to Choose Public or  
Private  
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¶2. (C) Ambassador, accompanied by LABATT, called on Minister of labor Carlos Tomada on February 6. The Ambassador began by noting the recent pension reforms, where the GOA announced that workers will have the option of putting money into a private or government pension system, and that if they do not make a deliberate choice between the two systems, the default will be to have their contributions put in the government pension system. Minister Tomada said that the pension reforms and salary negotiations are in line with Argentina's economic recovery. He stated that these reforms would have been difficult to touch four to five years ago. He noted that there were some who argued to eliminate the private pension funds and return to the old state pension system. The GOA recognizes that there is a role for the private sector in providing workers with retirement benefits, but that the state has a role in ensuring a minimum economic safety net for Argentine workers. The debate is similar to the social security debate in the United States. He stressed that Argentines must have the freedom to choose between the two systems and foresaw both systems surviving.

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Youth Training and Creating Jobs to Fight Poverty  
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¶3. (C) Ambassador informed the Minister that he had visited a "villa de miseria" (slum) in Cordoba, and that it was important to create employment opportunities in order to fight poverty. The Minister agreed, adding that work, not

aid, is the best formula for fighting poverty. He noted that the GOA is trying to copy best practices from the United States, such as the GOA's recent inauguration of employment offices nationwide. In addition, the GOA has successfully sought a 5-year loan from the World Bank for job training programs, with a special emphasis on training youth. Only 25% of Argentine firms train their employees, and the minimum qualifications threshold companies use for unskilled jobs is too high. "You don't need an engineering degree to sweep the floor", the Minister observed, adding that companies should lower the minimum qualifications for unskilled jobs and step up their commitment to on-the-job training.

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GOA: Linking CSR with Formal Work  
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¶4. (C) Tomada also discussed GOA efforts to promote Corporate Social Responsibility (CSR) within the Argentine private sector. The GOA has met with leaders from the 70 most prominent firms in Argentina to emphasize the importance of linking CSR to decent work. Although the Argentine economy has recovered since the 2001/02 crisis, the number of workers employed in the formal sector has not recovered. Approximately 40 percent of the Argentine workforce is still not registered and, hence, not protected. The Minister asserted that although large firms in Argentina all have decent work conditions, wages, and health benefits for their workers, they have the social responsibility to ensure that the suppliers, distributors, subcontractors are all employing formal labor as well.

¶5. (C) The only way to improve the socio-economic conditions for the average Argentine is to expand the number of people working in the formal economy, Tomada continued. Argentina has a long tradition of using education and work as a means to integrate people into society. As a result, Argentina had a strong middle class and real opportunities for socio-economic mobility. "We need to recover that", the Minister asserted, adding that the best way to sustain democracy and prosperity in Argentina is to have an integrated society.

¶6. (C) The Ambassador suggested that CSR is an area where the U.S. and Argentina can strengthen cooperation. He noted that during his visit to Cordoba he saw that U.S. high tech firms in Cordoba, such as Motorola, Intel, and EDS, all have training programs for their employees, universities, and their contractors. In addition, the U.S. company, APEX, is working with the MOL on youth training programs that enable university students to work part-time at one of their call centers. U.S. companies recognize the importance of building labor capacity and are doing their part to increase the number of highly-skilled workers in Argentina. The Ambassador underscored USG willingness to work with the GOA to exchange ideas and best practices in the labor arena. Minister Tomada welcomed, and expressed appreciation for continued dialogue. He added that the MOL has learned a lot from the USG's Spanish-language website that provides useful information on labor regulations such as the minimum wage and health benefits.

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GOA Efforts to Keep Salary Negotiations "Rational and Reasonable"  
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¶7. (C) Turning to a discussion on salary negotiations, Tomada observed that unlike the U.S. where negotiations are conducted at the firm level, the MOL plays this role in Argentina. The GOA meets with firms as well as with the unions to determine which labor demands are "rational and reasonable". As a rule, salary raises should be slightly higher than inflation, which should help restore wage predictability as company managers can factor this into their operating budget for the coming year, he asserted. Since Argentina's inflation rate was lower last year, wage increases can also be lower, so a 10-16 percent salary

increase is "reasonable", Tomada concluded. The Ambassador then asked whether the government would set a uniform salary increase across all sectors. The GOA will set a floor and a ceiling, and firms will determine the actual increase within that range, the Minister replied.

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What Energy Crisis?  
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18. (C) The Ambassador asked about labor strife in the energy sector, noting that the short-term solution the GOA brokered with the unions where companies would pay employee tax obligations was not a good solution over the long term. Tomada acknowledged that it was a very difficult situation, but did not offer specifics on how the GOA plans to handle the situation. Instead, he noted that with the economic recovery, Argentine energy demand has skyrocketed. He explained that the crisis in the energy sector did not start in 2003, but rather in 1998 with companies choosing not to invest in the sector. He maintained that there is no widespread energy crisis, rather it is only at the margin. Argentina is not in danger of experiencing brownouts or blackouts. "Don't believe everything you read in the press", Tomada advised, as they are "constantly announcing disaster". Over 18 months ago, the GOA has decided to diversify its energy sources by investing in hydroelectric and nuclear energy as well as in gas distribution. Strong investment in the sector in the next few years will eventually address current bottlenecks in the system.

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GOA Lessons Learned: "It's the Economy, Stupid"  
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19. (C) Tomada closed the meeting by asserting that the GOA has learned from its mistakes in the past. Over twenty years ago, maintaining fiscal discipline and budget surpluses was not a GOA priority, like democracy was not valued in Argentina during the military dictatorship in the 1970s. These lessons, coupled with Argentina's experience of hyperinflation in the 1980s, has taught the GOA that it needs to take care of the macrofundamentals. President Kirchner understands that "it's the economy, stupid," Tomada asserted. "If we haven't learned, then we are in trouble," Tomada concluded. The Ambassador noted that despite past crises, Argentines continue to persevere in their efforts to improve the country's situation. He reiterated the USG's commitment to continue dialogue and cooperation with the GOA in the labor arena.

WAYNE